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BEFORE THE SURFACE TRANSPORTATION BOARD

Ex Parte 711 (Sub-No. 1) RECIPROCAL SWITCHING

COMMENTS OF THE INTERNATIONAL WAREHOUSE LOGISTICS ASSOCIATION

The International Warehouse Logistics Association (IWLA) would like to reiterate our support for the Board's proposed rules to provide railroad customers with greater access to reciprocal switching. We strongly urge the Board to adopt a final reciprocal switching rule that will reduce regulatory barriers and promote competition in the freight rail industry.

The IWLA is a 501(c) (6) non-profit trade association representing the interests of third party logistic (3PL) warehouse operations through-out the United States and Canada. 3PL warehouse companies receive, store, and ship other company's goods and act as that company's warehouse, while not owning any of the products. We represent 360 companies whose 3500 warehouses primarily serve manufacturers and retailers in metropolitan areas. 50 percent of the 3PL warehouse companies receive and/or ship goods via rail.

A third-party warehouse is a company that does not own any goods but provides warehousing services for other companies. These facilities receive, store, sometimes process or repackage, and ship goods for other companies. Some of those companies ship their goods via rail. These shipments need to be either unloaded or unloaded and loaded again for rail delivery to other locations.

Reciprocal switching occurs when a shipper has access to one freight railroad but wants access to a nearby competing freight railroad in order to cultivate a competitive pricing environment. A shipper can get that access at an interchange between the two railroads. Shippers contend that reciprocal switching benefits captive shippers, or those

that have access to only one railroad. In Canada, reciprocal switching is an option that has existed for years and is known as interswitching.

The STB's proposal will allow certain rail customers to request that their freight be moved to another major railroad when another rail line is reasonably accessible. A request can only be made in situations where switching is both feasible and needed for competition. The STB's proposal will allow certain rail customers to request that their freight be moved to another major railroad when another rail line is reasonably accessible. A request can only be made in situations where switching is both feasible and needed for competition.

In addition to removing barriers to competition, switching can open more service options and ease congested routes. Railroads use switching every day in the United States to move freight from one rail line to another - they just don't like the idea of customers using it to get competitive bids.

The first two national rail transportation policies enumerated by Congress direct the Board "to allow, ***to the maximum extent possible***, competition and the demand for services to establish reasonable rates for transportation by rail" and "***to minimize*** the need for Federal regulatory control over the rail transportation system...."¹ The Staggers Rail Act of 1980 specifically empowers the STB to grant reciprocal switching when it is in the public interest or necessary to provide competitive rail service. Unfortunately, the Board's existing rules impose such high regulatory hurdles that no rail customer has ever been able to successfully request switching. As stated by the Board itself, these rules have "effectively operated as a bar" rather than as "a standard under which [switching] could be granted."

This outdated policy makes no sense given today's highly concentrated railroad market and the financial strength of the US railroads. The Board's recent Annual Rail Rate Index Study shows that since 2004, real rail rates (adjusted for inflation) have increased by 30%. Many shippers remain captive to their railroad, even when reciprocal switching could help relieve railroad service disruptions and congestion.

Reciprocal switching would empower rail customers, including 3PL warehouses, to choose a carrier that provides the best combination of rates and service. Furthermore, greater market choice would fundamentally change shipper-railroad relationships and help facilitate informal solutions to rate and service issues. The proposed case-by-case approach in EP 711 allows the Board to appropriately consider the interests of all stakeholders based upon the facts of individual reciprocal switching requests.

We urge the Board to finalize reciprocal switching rules and to consider further steps that will at long last provide shippers with greater access to competitive rail service. Such actions will help achieve the Staggers Act's vision of a healthy and competitive freight rail system.

¹ 49 U.S.C. § 10101(1) & (2) [emphasis added].